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PHOENIX
HEALTHCARE
GROUP
鳳凰醫療集團

Phoenix Healthcare Group Co. Ltd

鳳凰醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1515)

**EXCEEDING EXISTING ANNUAL CAP FOR
EXISTING CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the section titled “Connected Transactions — Non-Exempt Continuing Connected Transactions with Yan Hua Hospital Group” in the Prospectus. As disclosed in the Prospectus, Beijing Phoenix, the Company’s wholly-owned subsidiary, Yan Hua Hospital Group and Yan Hua Phoenix entered into the Yan Hua IOT Agreement.

Yan Hua Hospital Group performed significantly better in December 2013 in terms of patient numbers and average revenue per patient, exceeding our expectation when we published the Prospectus in November 2013. In addition, the increase in operating expenses and other costs of Yan Hua Hospital Group has slowed down in December 2013, resulting in the increase in the Management Fees. The amount of Management Fees and Investment Repayment that the Group is entitled from Yan Hua Hospital Group for the financial year ended December 31, 2013 was approximately RMB23.0 million (the “**Actual 2013 Transaction Amount**”), which, however, exceeded the Existing Yan Hua IOT Annual Cap for 2013.

For the reasons set out in this announcement, the Directors propose to approve and ratify the amount of Actual 2013 Transaction Amount that exceeded the Existing Yan Hua IOT Annual Cap for the financial year ended December 31, 2013, which is approximately RMB5.2 million.

Pursuant to Rule 14A.36(1) of the Listing Rules, if any annual cap of a continuing connected transaction is exceeded, the Company is required to re-comply with Rule 14A.35(3) (reporting and announcement requirements) and where applicable, Rule 14A.35(4) (independent shareholders’ approval requirements) of the Listing Rules.

As the applicable percentage ratios under Rule 14A.34 of the Listing Rules in respect of the Actual 2013 Transaction Amount is more than 0.1% but less than 5%, the Company will not be required to comply with Rule 14A.35(4) (independent shareholders' approval requirements) of the Listing Rules but the transaction will, however, be subject to the reporting and announcement requirements in accordance with the requirement of Rule 14A.45 to Rule 14A.47 of the Listing Rules.

1. EXISTING ANNUAL CAPS

Continuing Connected Transactions under the Yan Hua IOT Agreement

Reference is made to the section titled “Connected Transactions — Non-Exempt Continuing Connected Transactions with Yan Hua Hospital Group” in the Prospectus.

Beijing Phoenix, the Company's wholly-owned subsidiary, Yan Hua Hospital Group and Yan Hua Phoenix entered into a hospital management right and investment framework agreement on February 1, 2008, and a hospital investment management agreement on February 4, 2008, which were supplemented in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013 respectively (collectively, the “**Yan Hua IOT Agreement**”). Pursuant to the Yan Hua IOT Agreement, Beijing Phoenix agreed to (i) pay Yan Hua Phoenix an amount of RMB72 million (the “**Consideration**”) and (ii) invest a total of RMB150 million (the “**Investment**”) into Yan Hua Hospital Group prior to 2015, in exchange for the right to manage Yan Hua Hospital and to receive management fees from Yan Hua Hospital Group until July 17, 2055 (the “**Management Fees**”). The term of the Yan Hua IOT Agreement is subject to approval by the Independent Shareholders every three years.

Management Fee Structure

The calculation of annual Management Fees is based on the following formula (the “**Management Fee Formula**”): a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group, plus a higher fixed percentage of the annual revenue in excess of RMB150 million less the amount of the relevant Investment Repayment (as defined in “Consideration, Investments Amounts and Repayment of Investments” below). In any given period, the Management Fees the Company is entitled to should not exceed the Yan Hua Hospital Group's net income before tax and the Investment Repayment. The Management Fee Formula is set based on arm's length negotiation among the parties.

Existing Yan Hua IOT Annual Caps

In accordance with Rule 14A.35(2) of the Listing Rules, the Company has, at the time of its Listing, set annual caps on the maximum Management Fees and Investment Repayment under the Yan Hua IOT Agreement. The Existing Yan Hua IOT Annual Caps for each of 2013, 2014 and 2015 are RMB17.8 million (of which RMB1.8 million is Investment Repayment, as defined below), RMB28.5 million (of which RMB2.0 million is Investment Repayment) and RMB37.4

million (of which RMB3.6 million is Investment Repayment) respectively. The Group has not factored into the Existing Yan Hua IOT Annual Caps any potential loss top-up payments. The Stock Exchange has granted a conditional waiver from strict compliance with the announcement requirements as may otherwise be required of the Company under Chapter 14A of the Listing Rules in connection with the Yan Hua IOT Agreement and all transactions contemplated under it. The waiver will be valid for three financial years until the end of 2015.

Consideration, Investment Amounts and Repayment of Investments

The Consideration has been paid in full before Listing. The carrying amount of that initial investment (the “**Carrying Amount**”) under the Yan Hua IOT Agreement is determined as if the Consideration is amortized equally over the IOT term of 48 years. Yan Hua Phoenix has undertaken to reimburse Beijing Phoenix the Carrying Amount upon termination or discontinuation of the Yan Hua IOT Agreement. Ms. Xu Xiaojie and Ms. Xu Jie have jointly and severally guaranteed the performance of the above undertaking.

Pursuant to the Yan Hua IOT Agreement, Yan Hua Hospital Group shall repay the Investment made in the past by Beijing Phoenix (the “**Investment Repayment**”). An Investment made in the current year by Beijing Phoenix will be repaid by Yan Hua Hospital Group starting from the year after in equal installments annually until the end of the term of the Yan Hua IOT Agreement. The discontinuation or termination of the Yan Hua IOT Agreement would not affect the Investment Repayment schedule.

Details of the Yan Hua IOT Agreement are set out in the Prospectus.

2. REASONS FOR EXCEEDING THE EXISTING ANNUAL CAPS

The accrued Management Fees and Investment Repayment that the Group is entitled from Yan Hua Hospital Group for the first eleven months of 2013 were below the Existing Yan Hua IOT Annual Cap of RMB17.8 million for the financial year ended December 31, 2013.

As disclosed in the Prospectus, the Existing Yan Hua Annual Cap for 2013 was estimated with reference to (i) the Management Fees for the first six months of 2013; (ii) the Management Fees for the second six months in 2012 of RMB16.3 million, which demonstrates that a significant portion of Management Fees is typically recognized in the second half of the financial year; (iii) the projected revenue of Yan Hua Hospital Group from July 1 to December 31, 2013, taking into account the financial performance of Yan Hua Hospital Group as compared to the same months in 2012; and (iv) the expected Investment Repayment amount in 2013.

Yan Hua Hospital Group performed significantly better in December 2013 in terms of patient numbers and average revenue per patient, exceeding our expectation when we published the Prospectus in November 2013. In addition, the increase in operating expenses and other costs of Yan Hua Hospital Group has slowed down in December 2013, resulting in the increase in the Management Fees. The amount of Management Fees and Investment Repayment that the Group is

entitled from Yan Hua Hospital Group for the financial year ended December 31, 2013 was approximately RMB23.0 million, which, however, exceeded the Existing Yan Hua IOT Annual Cap for 2013.

Since Yan Hua Hospital is a not-for-profit hospital, it is supervised by the Beijing Social Organizations Management Bureaus (北京市社會團體管理辦公室), which is the PRC government authority responsible for enforcing the relevant PRC laws, rules and regulations. The local bureau appointed a PRC audit firm to audit the financials of Yan Hua Hospital Group under PRC GAAP. The final approved financials for the financial year ended December 31, 2013 was made available to the Group in February 2014. In mid March 2014, the Company confirmed that Existing Yan Hua IOT Annual Cap for the financial year ended December 31, 2013 was exceeded with its Reporting Accountants.

For the reasons set out in this announcement, the Directors propose to approve and ratify the amount of Actual 2013 Transaction Amount that exceeded the Existing Yan Hua IOT Annual Cap for the financial year ended December 31, 2013, which is approximately RMB5.2 million.

3. REMEDIAL ACTIONS TAKEN BY THE COMPANY

The Group has two continuing connected transactions with Yan Hua Hospital Group, namely the transactions contemplated under (i) the Yan Hua IOT Agreement and (ii) the pharmaceutical, medical device and consumables sales framework agreement dated November 29, 2013 (the “**Supply Chain Agreement**”). Details of the Supply Chain Agreement are set out in the section titled “Connected Transactions — Non-Exempt Continuing Connected Transactions with Yan Hua Hospital Group” in the Prospectus.

The Company will endeavour to carry out adequate supervision over the amount of the Management Fees and the Investment Repayment against the relevant annual caps in future, with a view to ensuring that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken. Such measures and actions include:

- (a) the Group will continuously request from Yan Hua Hospital Group its monthly unaudited management accounts and run a cumulative annual Management Fees and Investment Repayment and cumulative annual revenue generated under the Supply Chain Agreement (the “**Supply Chain Revenue**”) for any financial year. If the cumulative Management Fees and Investment Repayment or the Supply Chain Revenue, as the case may be, would reach 80% of the annual caps at any point of the year, the management will then seek advice from the audit committee and the Board to consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek Independent Shareholders’ approval for an increase in annual caps, if applicable.

- (b) a pre-determination process conducted by the management of the Group in as early as January to determine whether there is likelihood of exceeding the annual caps in respect of the previous financial year immediately upon receipt of the Yan Hua Hospital Group unaudited annual management accounts made available to the Group in January by Yan Hua Hospital Group. If the management of the Group is of the view there is likelihood that any annual caps of the previous financial year would be exceeded, the management will then seek advice from the audit committee and the Board to consider the next steps, including the need to inform the Stock Exchange and publish any announcement and to seek Independent Shareholders' approval for an increase in annual caps, if applicable.
- (c) upon finalizing the annual audited accounts of the Group, if the audited financial figures would indicate the exceed of the annual caps, the Company would inform the Stock Exchange and make an immediate announcement.

4. INFORMATION ON THE GROUP

The Company is a limited liability company incorporated in the Cayman Islands and its shares have been listed on the Stock Exchange since November 29, 2013. The Group is principally engaged in the provision of general hospital services and hospital management services and the supply of pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics.

5. INFORMATION ON YAN HUA HOSPITAL GROUP

Yan Hua Hospital Group includes Yan Hua Hospital, a not-for-profit and the only Grade III general hospital in the Fangshan District of Beijing, Xingcheng Hospital, a branch of Yan Hua Hospital, and 17 community clinics, primarily serving residents in the Fangshan District. Yan Hua Hospital has remained a not-for-profit medical institution after its privatization, as it is accredited as a regional medical center by the Fangshan District government and is entrusted with significant public health and contingency planning responsibilities. Yan Hua Hospital is a Medical Insurance Designated Medical Institution in Beijing.

6. LISTING RULES IMPLICATIONS

As disclosed in the Prospectus, Ms. Xu Xiaojie and Ms. Xu Jie, the Controlling Shareholders, collectively own the entire equity interest in Beijing Wantong. Beijing Wantong indirectly owns the entire equity interest in Yan Hua Phoenix, which in turn is the owner (舉辦人) of Yan Hua Hospital Group. As such, Yan Hua Phoenix and Yan Hua Hospital Group are “connected persons” under the Listing Rules. Yan Hua Hospital Group, Beijing Phoenix and Yan Hua Phoenix entered into an IOT agreement regarding the management of Yan Hua Hospital Group on February 4, 2008 which constitutes a continuing connected transaction under the Listing Rules.

Pursuant to Rule 14A.36(1) of the Listing Rules, if any annual cap of a continuing connected transaction is exceeded, the Company is required to re-comply with Rule 14A.35(3) (reporting and announcement requirements) and where applicable, Rule 14A.35(4) (independent shareholders' approval requirements) of the Listing Rules. As the applicable percentage ratios under Rule 14A.34 of the Listing Rules in respect of the Actual 2013 Transaction Amount is more than 0.1% but less than 5%, the Company will not be required to comply with Rule 14A.35(4) (independent shareholders' approval requirements) of the Listing Rules but the transaction will, however, be subject to the reporting and announcement requirements in accordance with the requirement of Rule 14A.45 to Rule 14A.47 of the Listing Rules.

7. CONFIRMATION FROM OUR DIRECTORS

Our Directors, including independent non-executive Directors, confirm that the continuing connected transactions under the Yan Hua IOT Agreements have been and will be entered into in the ordinary and usual course of business of our Group and based on normal or better commercial terms. Our Directors also confirm that the terms of the Yan Hua IOT Agreement, the Actual 2013 Transaction Amount and the Existing Yan Hua IOT Annual Cap amounts for the financial years ending December 31, 2014 and 2015 are fair and reasonable as far as our Company is concerned and thus, they are in the interests of our Shareholders as a whole.

As a result of exceeding the Existing Yan Hua IOT Annual Cap for the financial year ended December 31, 2013, an additional amount of approximately RMB5.2 million would be received by the Company from Yan Hua Hospital Group for the financial year ended December 31, 2013. Our Directors are also of the view that such exceeded amount which the Company is entitled to is in the interests of the Shareholders as a whole.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“%”	per cent;
“Actual 2013 Transaction Amount”	the actual amount of Management Fees and Investment Repayment for the financial year ended December 31, 2013 of approximately RMB23.0 million;
“associate”	has the meaning ascribed to it in the Listing Rules;
“Beijing Phoenix”	Beijing Phoenix United Hospital Management Consulting Co., Ltd. formerly known as Beijing Phoenix United Hospital Management Co., Ltd. and Beijing Phoenix United Hospital Management Joint Stock Co., Ltd., a limited liability company incorporated under the laws of the PRC on November 6, 2007, and a wholly-owned subsidiary of the Company;

“Beijing Wantong”	Beijing Phoenix Wantong Investment Management Co., Ltd., formerly known as Phoenix Hospital Management (Beijing) Co., Ltd., a limited liability company incorporated under the laws of the PRC on April 24, 2002, and wholly owned by the Controlling Shareholders, Ms. Xu Jie and Ms. Xu Xiaojie and a connected person to the Company;
“Board” or “Board of Directors”	the board of Directors of the Company;
“BVI”	the British Virgin Islands;
“Carrying Amount”	the carrying amount of the initial Investment;
“Company”	Phoenix Healthcare Group Co. Ltd, a company with limited liability incorporated in the Cayman Islands on February 28, 2013;
“Consideration”	RMB72 million, being the consideration that Beijing Phoenix agreed to pay pursuant to the Yan Hua IOT Agreement;
“connected person”	has the meaning ascribed to it in the Listing Rules;
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Ms. Xu Jie, Ms. Xu Xiaojie and Speed Key Limited or any one of them;
“Director(s)”	the director(s) of the Company;
“Existing Yan Hua IOT Annual Caps”	The annual caps of the Management Fees and Investment Repayment under the Yan Hua IOT Agreement for each of 2013, 2014 and 2015, being RMB17.8 million (of which RMB1.8 million is Investment Repayment), RMB28.5 million (of which RMB2.0 million is Investment Repayment) and RMB37.4 million (of which RMB3.6 million is Investment Repayment) respectively;
“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the Company’s present subsidiaries, the present subsidiaries of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IFRS”	International Financial Reporting Standards;

“Independent Shareholders”	any shareholder of the Company that will not be required under the Listing Rules to abstain from voting at the EGM;
“in-network hospitals and clinics”	collectively, Jian Gong Hospital and the IOT hospitals and clinics;
“Investment”	a total amount of RMB150 million that Beijing Phoenix agreed to invest into Yan Hua Hospital Group prior to 2015;
“Investment Repayment”	the Investment made in the past by Beijing Phoenix that Yan Hua Hospital Group agreed to repay pursuant to the Yan Hua IOT Agreement;
“IOT”	the “invest-operate-transfer” model;
“IOT hospitals and clinics”	third-party hospitals and clinics, which the Group manage and operate under the IOT model;
“Listing”	listing of the Company on the main board of the Stock Exchange on November 29, 2013;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Management Fees”	the management fees received by Beijing Phoenix from Yan Hua Hospital Group pursuant to the Yan Hua IOT Agreement;
“Management Fee Formula”	a fixed percentage of the first RMB150 million of the annual revenue of Yan Hua Hospital Group, plus a higher fixed percentage of the annual revenue in excess of RMB150 million less the amount of the relevant Investment Repayment;
“PRC”	the People’s Republic of China;
“PRC GAAP”	the generally accepted accounting principles in PRC;
“Prospectus”	the prospectus issued by the Company in relation to its Listing dated November 18, 2013;
“Reporting Accountants”	Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong;
“RMB” or “Renminbi”	the lawful currency of the PRC;
“Share(s)”	share(s) with par value of HK\$0.00025 each in the capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);

“Speed Key Limited”	a limited liability company incorporated in the BVI on January 30, 2013, a Controlling Shareholder and a connected person to the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary”	has the meaning ascribed thereto in the Companies Ordinance;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Yan Hua Hospital”	Yan Hua Hospital, a not-for-profit hospital established under the laws of the PRC in 1973 and wholly owned by Yan Hua Phoenix, which the Company started to manage and operate in February 2008 pursuant to the Yan Hua IOT Agreement and a connected person to the Company;
“Yan Hua Hospital Group”	collectively, Yan Hua Hospital and 17 community clinics affiliated with Yan Hua Hospital;
“Yan Hua IOT Agreement”	collectively, the IOT agreement the Company entered into with Yan Hua Hospital Group and Yan Hua Phoenix on February 1, 2008, as amended;
“Yan Hua Phoenix”	Beijing Yan Hua Phoenix Healthcare Asset Management Co., Ltd., a limited liability company incorporated under the laws of the PRC on July 18, 2005, a wholly-owned subsidiary of Beijing Juxin Wantong and a connected person to the Company.

By the order of the Board
Phoenix Healthcare Group Co. Ltd
Liang Hongze
Chairman

Hong Kong, April 17, 2014

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Liang Hongze, Ms. Xu Jie, Mr. Zhang Liang, Mr. Xu Zechang and Mr. Jiang Tianfan, as executive Directors; Mr. Yang Huisheng and Mr. Zhu Zhongyuan, as non-executive Directors; and Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Wang Bing and Mr. Sun Jianhua, as independent non-executive Directors.